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April 11, 1996

BY OVERNIGHT MAIL

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Washington, D.C. 20554

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Re: CC Docket No. 96-45

Dear Mr. Caton:

Enclosed for filing please find an original plus eleven (11) copies, with two such copies marked "Extra Public Copy," of the Comments of Frontier Corporation in the above-docketed proceeding.

To acknowledge receipt, please affix an appropriate notation to the copy of this letter provided herewith for that purpose and return same to the undersigned in the enclosed, self-addressed envelope.

Very truly yours,

Michael J. Shortley, III

cc: Ms. Ernestine Creech (cover letter  
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**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554**

**In the Matter of**

)

**CC Docket 96-45**

)

**Federal-State Joint Board  
on Universal Service**

)

)

**RECEIVED**

**APR 12 1996**

**To: The Joint Board**

**FCC MAIL ROOM**

**COMMENTS OF  
FRONTIER CORPORATION**

**Michael J. Shortley, III**

**Attorney for Frontier Corporation**

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**April 11, 1996**

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## **Summary**

The Telecommunications Act entrusts to the Joint Board and the Commission the responsibility for devising a new program designed to support the policy goal of universal service. The Act's universal service requirements, however, do not translate into an invitation to create large market distortions with an unnecessarily expensive and expansive universal service support funding requirement. Rather, the Act requires only that a universal service support program that is narrowly-targeted and as carefully-focused as possible be established. It also requires that any such program be competitively neutral.

Toward this end, the Joint Board should recommend the creation of a universal service support program that: (a) narrowly defines those services, persons and entities that may qualify for universal service support; (b) is competitively neutral; and (c) corrects anomalies in the existing separations and access charge rules that artificially inflate interstate access rates. The driving principle of the Joint Board's deliberations should be to minimize market distortions and to create the most economically rational universal service regime as possible.

**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554**

<b>In the Matter of</b>	)	
	)	<b>CC Docket 96-45</b>
<b>Federal-State Joint Board</b>	)	
<b>on Universal Service</b>	)	

**To: The Joint Board**

**COMMENTS OF  
FRONTIER CORPORATION**

**Introduction**

Frontier Corporation ("Frontier"), on behalf of its local and long distance subsidiaries, submits these comments on the Commission's Notice initiating this proceeding.<sup>1</sup> The Commission has initiated this proceeding to implement the provisions of section 254 of the Communications Act, as amended by the Telecommunications Act of 1996 ("Act"). The Act sets forth a number of criteria to guide the deliberations of the Joint Board and of the Commission.<sup>2</sup> These criteria define three principles that should shape the Joint Board's deliberations: (1) market-driven definitions of services that may qualify for universal service support; (2) narrow definitions of services, persons and entities that may qualify for universal service support; and (3) competitive neutrality in designing support and disbursement mechanisms. The final result of the Joint Board's deliberations should be a recommendation that any universal service support funding obligation be the minimum

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<sup>1</sup> *Federal-State Joint Board on Universal Service*, CC Dkt. 96-45, Notice of Proposed Rulemaking and Order Establishing Joint Board, FCC 96-93 (March 8, 1996) ("Notice").

<sup>2</sup> See 47 U.S.C. §§ 254(b), 254(c)(1).

necessary to comply with the requirements of the Act. The major problem with the current universal service programs is that they produce an unduly large funding requirement. The Act appropriately maintains universal service as a national policy goal. That policy, however, does not require the creation of a new support program that generates funding obligations far in excess of those required to achieve the Act's universal service goals. To fulfill its mandate, the Joint Board should recommend the following steps.

*First*, the Joint Board should recommend that a narrow definition of universal service be adopted. The proposed set of services contained in the Notice that would qualify for support satisfies section 254(b) of the Act. A broader definition of universal service at this time would be both unnecessary and create uneconomic market distortions. The Joint Board should also recommend that the Commission carefully define those entities and persons that may qualify for universal service support.

*Second*, any funding mechanism that the Joint Board recommends must be explicit and competitively neutral. Toward this end, the Joint Board should recommend that the Commission establish competitively-neutral disbursement and funding mechanisms that comply with this requirement.

*Third*, the Joint Board should recommend that the Commission adopt changes to correct anomalies in the existing separations and access charge rules that artificially inflate interstate access charges.

## **Argument**

### **I. THE JOINT BOARD SHOULD RECOMMEND THE CREATION OF A CAREFULLY-TARGETED UNIVERSAL SERVICE SUPPORT PROGRAM.**

The Joint Board should recommend that the Commission establish a carefully-targeted universal service support program that does not create funding obligations any larger than necessary to satisfy the minimum requirements of the Act.<sup>3</sup> Any other outcome would upset the procompetitive and economically sound telecommunications marketplace that the Act seeks to create. Any subsidy that drives prices below costs creates distortions, including "dead-weight" losses in the economy. Thus, subsidies must be minimized and be as economically rational as possible.<sup>4</sup>

#### **A. The Joint Board Should Recommend the Adoption of a Narrow Set of Services That May Qualify for Universal Service Support.**

With respect to high-cost areas and low-income consumers, the set of services that the Commission sets forth in the Notice -- voice grade access, single-party service, touch-tone, access to emergency services and access to operator services<sup>5</sup> -- provides a reasonable set of baseline services. This set consists of the services that a majority of

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<sup>3</sup> Section 254(e) of the Act precludes the use of revenues received from any universal service support program to subsidize other services. This limitation directly supports Frontier's proposals that are designed to produce a small, targeted universal service support program.

<sup>4</sup> See Pindyah and Rubinfeld, *Macroeconomics* at 312-17 (1992).

<sup>5</sup> Notice, ¶ 16.

consumers currently enjoy,<sup>6</sup> and for which there are some networking externalities.<sup>7</sup> It also satisfies the Act's requirement that all subscribers be afforded access to quality services.<sup>8</sup> A single-party line with touch-tone capability, for example, provides the opportunity for modem access for computer communications and the ability to be accessed by others, which are the essential cornerstones of access to advanced communications and information services. The Act requires that all Americans have access to a reasonable set of basic telecommunications services. The Commission's proposal satisfies this requirement.

With respect to schools, libraries and rural health care facilities, the Joint Board should also adopt recommendations consistent with a narrowly-targeted universal service support program. An overly-broad subsidy program will impose significant costs on telecommunications carriers and, ultimately, consumers. Schools and libraries may benefit from increased communications access to advanced services -- including modem access to the classrooms.<sup>9</sup> Additional services may well be useful, but, absent a compelling

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<sup>6</sup> See 47 U.S.C. § 254(c)(1)(B).

<sup>7</sup> Networking externalities refers to the benefits other subscribers receive by having more persons connected to the network.

<sup>8</sup> See 47 U.S.C. § 254(b)(1).

Rather than recommending the establishment of a program of company-specific monitoring (see Notice, ¶¶ 4, 69), the Joint Board should recommend that the Commission address service quality issues in the section 208 complaint process or refer such issues to the states for resolution in the first instance.

<sup>9</sup> The Joint Board needs to distinguish between access to the Nation's telecommunications infrastructure (e.g., telephone service to the classroom) and the *means* to take advantage



demonstration of need (*i.e.*, a demonstration that they could not afford to be connected), they should not qualify for subsidies. Similarly, rural health care providers may also benefit from access to advanced services, which the Commission's baseline set of services provides. Additional network services, such as asynchronous transfer mode and integrated services digital network technology,<sup>10</sup> however, should not qualify for subsidies, absent a compelling demonstration of need. Customers with these services are accessible by customers with the targeted group of basic services. Thus, no networking externalities exist with respect to these additional services in addition to those satisfied by the basic set of services.

**B. The Joint Board Should Recommend  
That Recipients of Universal Service  
Funding Be Narrowly-Targeted.**

Consistent with Act's mandate, the Joint Board should recommend that universal service support be carefully targeted to needy users in order that they may be connected to others and may use basic telecommunications services. Universal service support should not -- as it is today -- be used to support the earnings or, indirectly, the revenue expectations of incumbent local exchange carriers.

The existing qualification criteria for low-income subscribers, as well as the existing support plans, are generally reasonable and thus need not be changed. The Lifeline and

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of that access (*e.g.*, computers). The former is eligible for universal service support; the latter is not.

<sup>10</sup> See Notice, ¶ 92.

Link-Up programs identify those low-income subscribers that should receive assistance and appropriately define the types of assistance for which these consumers should qualify.<sup>11</sup>

The Act defines a new class of targeted users -- schools, libraries and rural health care providers -- that may qualify for assistance. Once the Joint Board recommends the appropriate discount or other support mechanism, it should quantify the overall amount associated with this support mechanism and invite comment on the level and the alternatives for collection. The final amount should be earmarked for recovery from a single, fixed-amount, universal service fund.

For high-cost support, the Joint Board should also recommend significant changes to the method of qualifying for high-cost support. Frontier has previously set forth its proposals in its comments filed in CC Docket No. 80-286. Those include:

- relying upon cost proxies rather than actual costs for determining qualification for high-cost support;
- establishing a qualification threshold of at least one standard deviation above the national average;
- limiting eligibility to carriers that serve less than 50,000 access lines in a state; and

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<sup>11</sup> The Joint Board should decline to recommend that the Commission adopt its proposals that other services -- e.g., toll limitation services and the like (see Notice, ¶¶ 51-58) -- should qualify for universal service support. The claim that the discounted availability of such services is necessary to ensure access to the public switched network is unsupported.

- a benchmark local service rate of 75% of the rate of the neighboring large exchange carrier with a comparable local calling area.<sup>12</sup>

Although the concepts underlying this approach remain valid, the Act requires that Frontier modify its proposals in certain respects. The Act leaves to the states the definition of those areas that may qualify for high-cost support.<sup>13</sup> Whatever area a State selects for purposes of defining an "eligible telecommunications carrier," that area should include -- for purposes of determining qualification for universal service support -- all access lines served by an incumbent exchange carrier in that state. Any area that is served by an incumbent local exchange carrier that serves more 50,000 access lines in a state would not qualify for high-cost support.<sup>14</sup> This limitation is necessary for ensuring that high-cost support is targeted to subscribers of companies that truly serve only high-cost areas and for minimizing the opportunity indirectly to subsidize low-cost areas. Larger exchange carriers do not require high-cost support -- particularly when such support typically

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<sup>12</sup> *Amendment of Part 36 of the Commission's Rules and Establishment of a Joint Board*, CC Dkt. 80-286, Comments of Frontier Corporation at 6-9 (Sept. 11, 1995) ("Frontier 80-286 Comments").

<sup>13</sup> 47 U.S.C. § 214(e).

<sup>14</sup> See Frontier 80-286 Comments at 7-8.

generates only a *de minimis* amount per access line.<sup>15</sup> This limitation is required to avoid the result of supporting corporate earnings, which the Act proscribes.<sup>16</sup>

These recommendations as to qualification are designed to produce a universal service support funding level that is modest in size, yet satisfies the Act's universal service goals. Thus, in defining those services eligible for support, the Joint Board should recommend that the Commission carefully define a narrow set of services that qualify for universal service support.

## II. THE JOINT BOARD SHOULD RECOMMEND THE ADOPTION OF A COMPETITIVELY-NEUTRAL UNIVERSAL SERVICE SUPPORT MECHANISM.

The Act requires that support mechanisms be explicit, predictable and competitively neutral.<sup>17</sup> The current universal service support mechanisms are completely inconsistent with the Act's mandates. In large part, the "support" component in interstate access rates needs to be eliminated, not shifted to other payors.<sup>18</sup> Moreover, such support is neither

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<sup>15</sup> *Amendment of Part 36 of the Commission's Rules and Establishment of a Joint Board*, CC Dkt. 80-286, Notice of Proposed Rulemaking and Notice of Inquiry, FCC 95-282, ¶ 45 (July 13, 1995).

<sup>16</sup> If the Joint Board recommends -- and the Commission adopts -- the proposals set forth herein, the use of Census Block Groups to define and quantify universal service support funding (see Notice, ¶¶ 31-34) would be unnecessary. The only apparent purpose of this approach is to qualify large exchange carriers as recipients of support. If this result is precluded, the enormous expense of conducting cost studies at the Census Block Group level would be avoided. See Frontier 80-286 Comments at 10-12.

<sup>17</sup> 47 U.S.C. § 254(b)(5).

<sup>18</sup> The claims of certain exchange carriers that these "implicit" support flows should be removed from rates is entirely correct. The oft-asserted corollary -- that these flows (and others) must be recovered from some external source -- lacks merit. As is explained *supra* at 7-8, there is no economic reason for larger exchange carriers to qualify for high-cost support.

disbursed nor funded in a competitively-neutral manner. This system is in need of overhaul.

**A. The Joint Board Should Recommend That the Commission Establish a Neutral Disbursement Mechanism.**

The Act contemplates that multiple carriers may qualify for -- although not necessarily receive -- universal service support. Frontier continues to believe that, at most, only one carrier per eligible area should receive high-cost support.<sup>19</sup> However, because the Act contemplates that multiple telecommunications carriers may be eligible for high-cost support, the Commission should adopt its competitive bidding proposal.<sup>20</sup> Such an approach would comport with the competitive-neutrality principles embodied in the Act. It would also help ensure that a high-cost support program does not become -- as the current system is -- unnecessarily expensive. Any carrier that provides subsidized service to low-income consumers or to schools, libraries or rural health care facilities should qualify for support.

**B. The Joint Board Should Recommend the Adoption of a Competitively-Neutral Approach for Funding Universal Service Support.**

The Act requires that the Commission adopt a funding mechanism that requires all providers of interstate telecommunications services to contribute on an equitable basis to

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<sup>19</sup> Frontier 80-286 Comments at 5, 9-10.

<sup>20</sup> Notice, ¶¶ 35-39.

universal service support funding.<sup>21</sup> The Joint Board should recommend that the Commission require all providers of interstate telecommunications services to contribute to interstate universal service support on the basis of net interstate minutes of use.<sup>22</sup> This system is similar to that currently in effect for the telecommunications relay service fund. Adoption of this system will ensure that all telecommunications carriers contribute to universal service support in an equitable manner.

The fund should be administered by a neutral third party whose activities are limited to operating the fund. The Commission should select the fund administrator through competitive bidding.

**III. THE JOINT BOARD SHOULD RECOMMEND  
THAT THE COMMISSION REVISE EXISTING  
SEPARATIONS AND ACCESS CHARGE RULES.**

The current separations factors allocate a far greater share of costs to the interstate jurisdiction than are attributable to interstate services. Both the subscriber plant factor -- currently frozen at 25% -- and the existing dial equipment minutes weighting mechanism unquestionably overallocate costs to the interstate jurisdiction. The Joint Board should recommend that these jurisdictional shifts be eliminated. The amounts reallocated to the intrastate jurisdiction should be recovered in the first instance from consumers of intrastate telecommunications services.

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<sup>21</sup> 47 U.S.C. § 254(d).


<sup>22</sup> Thus, if a toll carrier pays interstate access charges, it may net these payments from its interstate revenues to avoid paying these subsidies twice.

In addition, the current access charge rules contain two explicit subsidy mechanisms -- the carrier common line charge and the residual interconnection charge. To the extent that any revenues attributable to these elements remain in interstate rates after the changes to the separations rules recommended above are accounted for, these revenues should be removed from exchange carrier access rates.<sup>23</sup>

### Conclusion

For the foregoing reasons, the Commission should act upon the proposals contained in the Notice in the manner suggested herein.

Respectfully submitted,

  
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April 11, 1996

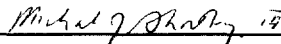
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<sup>23</sup>

The Commission's proposal to permit increases in end user common line rates (Notice, ¶ 113) has significant merit. Recovering non-traffic-sensitive costs from per-minute access charges assessed upon interexchange carriers is an imperfect cost recovery system, at best. Thus, the Joint Board should recommend that the Commission permit the recovery of these costs in a more cost-causative manner.

### **Certificate of Service**

I hereby certify that, on this 11th day of April, 1996, copies of the foregoing Comments of Frontier Corporation were served by first-class mail, postage prepaid, upon the parties on the attached service list.

  
\_\_\_\_\_  
Michael J. Shortley, III



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